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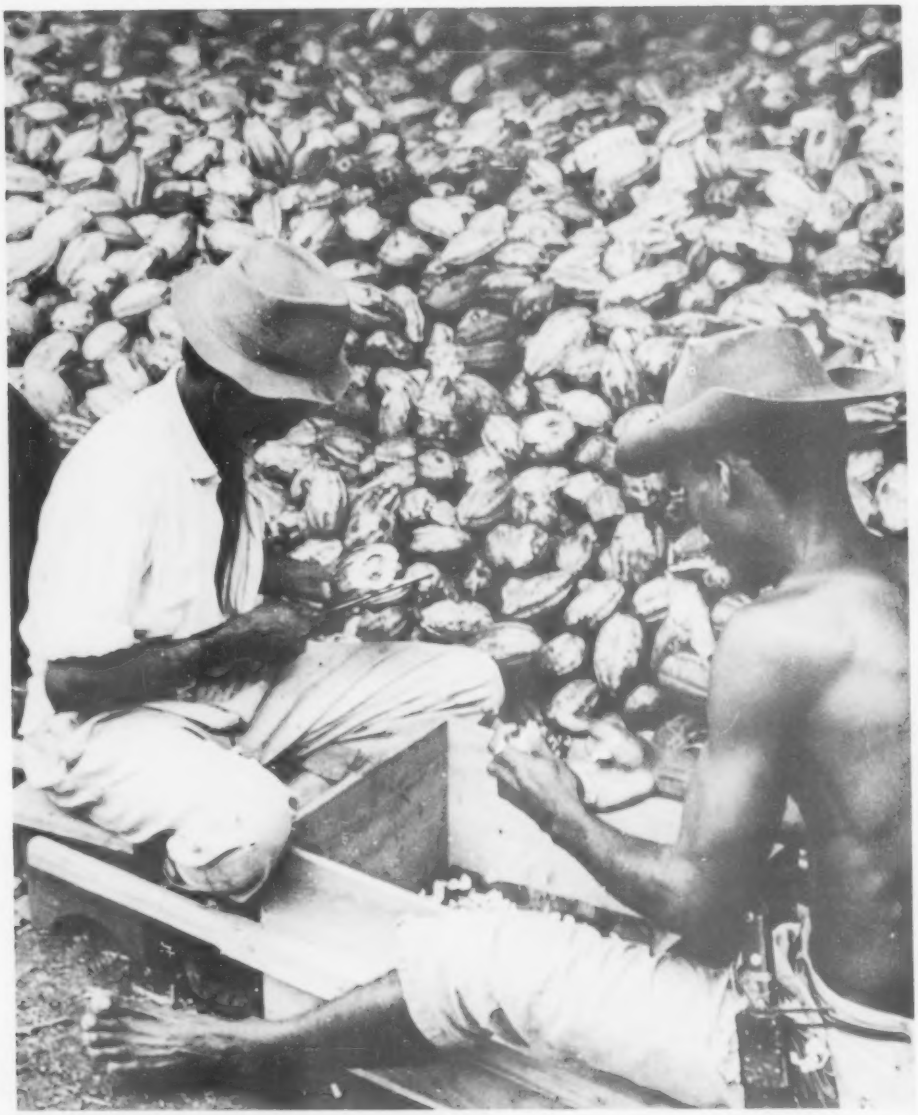

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Central American Coffee Producers Face Uncertainty

By Peter Buzzanell

Coffee-producing countries of Mexico and Central America in 1976 and early 1977 found their foreign exchange earnings perking up as a result of rising coffee prices. Now they are burdened by problems of sales suspensions, lower prices and consumer demand, rising production costs, and the threat of coffee rust. Regional cooperation programs offer hope for solving a few of these difficulties, but most of the problems have left producers in doubt about the industry's future course.

Coffee industries in Mexico and Central America, once buoyed by the dramatic rise in coffee prices following the 1975 Brazilian coffee frost, are now inhibited by uncertainty for a number of troubling reasons:

- The dramatic fall in green coffee prices since April 1977 ($3.18 per pound in April, compared with $1.71 in October);
- The recent decision by producers of Other Mild Arabicas—the type of coffee grown in Mexico and Central America—to suspend export sales in order to bolster prices;
- A troubling dropoff in per capita coffee consumption in importing countries;
- Sharply increasing production costs—particularly for labor; and
- The prospect that coffee rust may spread from Nicaragua to other coffee-producing countries.

There is general agreement among most sectors of the coffee industries in Mexico and Central America that regional cooperation offers the best hope for raising the market price of mild coffees and pursuing the fight against coffee rust. However, there is considerable debate among the countries as to what should be the appropriate course of action.

On October 21, at a meeting in San Salvador, 10 producers [1] of Other Mild Arabicas decided to retire from the market until prices improved. This decision remained in effect until early December, when, according to trade reports, most Central American producers resumed exporting some coffee, although quantities moving are as yet unknown.

Since the meeting in San Salvador, the daily weakening of coffee prices temporarily reversed. On October 21, the daily International Coffee Organization (ICO) indicator price for Other Mild Arabicas dropped to $1.61 per pound compared with the record high of $3.36 per pound on April 14. As of December 6, however, the price had bounced back to $2.05 per pound, owing partly to the withdrawal of the Other Milds from the market.

It appears that several factors worked against the group's attempt to maintain a united front and keep the sales suspension in force.

First, the ability of these countries to warehouse the new crop being harvested varies from country to country. Not all are physically equipped to deal with an indefinite withholding of coffee from the market.

Second, the importance of coffee as a foreign-exchange earner varies considerably among the group. While Venezuela and Ecuador have petroleum revenues as a primary source of foreign exchange, other countries such as El Salvador, Guatemala, and Costa Rica, with economies that are highly dependent on coffee exports, put themselves in a precarious economic position by indefinitely suspending sales.

In addition, some elements of the industries in these countries—particularly the exporters—view the sales suspension as extremely ill-timed. The trade in general is concerned with the sharp decline in per capita coffee consumption, particularly in the United States, where green coffee disappearance could dip as low as 9-10 pounds per capita in 1977, compared with 12.8 pounds in 1976.

Many in the coffee trade viewed the tactics of sales suspension in order to pull up prices as encouraging consumer resistance to high coffee prices and possibly a reinforcement of the long-term trend away from coffee to other beverages (*U.S. Coffee Consumption, 1946-76*, FAS M-275, 1977).

On the demand side, the size of stocks held by dealers and roasters in consuming countries will be an important factor in determining whether the decision of the Other Milds producers will be effective in stabilizing prices in the coming months.

Equally important will be the near-term export policies of Brazil and Colombia, the world's largest coffee producers. From May through November, Brazil remained largely out of the market in an effort to maintain its coffee selling price of $3.20 per pound.

In late October, however, there were reports that Brazil had negotiated sizable sales to traditional importers at special discounts. The quantity of this trade is not known, but if it were to become sufficiently large, prices could further erode. And, on December 2, the ICO lowered its minimum registration price for green coffee to $2.10 per pound for shipments to be made during January and February.

Further complicating the situation was the November 4 report from Bogotá that Brazil and Colombia have decided to coordinate their marketing policies so as not to allow coffee to be sold below predetermined ICO indicator prices.

Prior to its decision to suspend sales, the group of Other Mild Arabicas producers, along with other major coffee-exporting countries, met in Bogotá and Mexico City to generate support for creation of an international coffee stabilization fund scheme.

The proposal, which was initiated by Mexico, provid-

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[1] **Mexico, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, the Dominican Republic, Venezuela, and Ecuador.**

Separating ripe red coffee "cherries" from the immature green ones in Guatemala. Rather than expand coffee area, Guatemala has been intensifying its coffee management techniques in order to boost yields per hectare.

Mexico and Central America: Value of Coffee Export Earnings, 1973-76

[In million dollars]

Country	1973	1974	1975	1976
Mexico	177	170	190	413
Costa Rica	101	125	97	159
El Salvador	178	206	230	406
Guatemala	153	187	159	282
Honduras	48	44	57	101
Nicaragua	45	46	55	[1] 96

[1] January-October. Source: International Coffee Organization.

Mexico and Central America [1]: Coffee Production

Year	Total production	Exportable production [2]	Share of world total exportable production
	Mil. 60-kg bags	*Mil. 60-kg bags*	*Percent*
1960-65 [3]	7.9	6.3	13
1965-70 [3]	9.1	7.0	14
1970-75 [3]	11.1	8.5	17
1975/76 [4]	11.6	9.4	16
1976/77 [4]	11.9	9.7	22
1977/78 [5]	12.4	10.0	20

[1] El Salvador, Costa Rica, Guatemala, Honduras, and Nicaragua. Panama's production not included, as its exportable production in all years is less than 50,000 bags. [2] Exportable production represents total harvested production minus domestic consumption. [3] Five-year average. [4] Annual. [5] Forecast based on latest available FAS estimates.

ed for the creation of a fund to buy or sell coffee when market prices go under or over certain minimum and maximum levels.

The Mexican buffer stock proposal, which was formerly discussed at the ICO's Council meeting in London in late September, was endorsed by all the Other Mild Arabicas producers as one means of smoothing out fluctuations in the supply of coffee and thus potentially providing protection for both producers and consumers from harmful price oscillations in the international market.

At the November 16 meeting of the ICO Executive Board, approval was given for a study group to determine the feasibility of an international stock arrangement.

Mexican and Central American producers traditionally have pursued completely independent coffee policies, with meaningful International cooperation largely absent. This independence has been perpetuated by differences in infrastructure in the coffee industries, as well as differences in political and financial capabilities to undertake joint actions.

The historically weak organizational structure of the region's coffee industries, characterized by an array of official and quasi-official organizations, has compounded the problem of joint cooperation.

In addition, numerous small exporters in these coffee-producing countries are weak sellers in the world market and are therefore vulnerable to the recurrent boom-bust cycle endemic to coffee.

Given the problems facing the Other Milds producers—particularly the serious economic, political, and social repercussions that are likely to occur if there is a further precipitous drop in coffee prices—the incentive for joint cooperation is now strong.

Along with the joint group action on suspending export sales and the official endorsement of the Mexican proposal by Other Milds coffee producers, there is also heightened regional cooperation in trade, in the flow of information, and in the fight against coffee rust.

On a more individual level, these countries have been using their growing technological capabilities to boost coffee production. As a result, coffee producers have continued the movement begun in the early 1960's to modernize the coffee industry.

While only limited new land has been planted to coffee, the primary tactic in all countries in the region has been to intensify cultivation on existing land to boost yields. Several maneuvers are common among the more modern coffee sectors in each country:

- Severe pruning of old trees in order to stimulate new, healthy growth;
- Shade removal, with concomitant increased fertilizer application;
- Increased use of fungicides, insecticides, and soil-specific fertilizer;
- Replacement of old trees with new, improved varieties;
- Increasing the density of planting per hectare; and
- Taking marginal coffee land out of production and diversifying to other cash crops.

El Salvador, Costa Rica, and Guatemala—the countries with a high concentration of technologically sophisticated and rather large growers—have been innovative in new planting techniques and introducing high-yielding new varieties. El Salvador and Costa Rica, in fact, lead the world with the highest national average yields per hectare.

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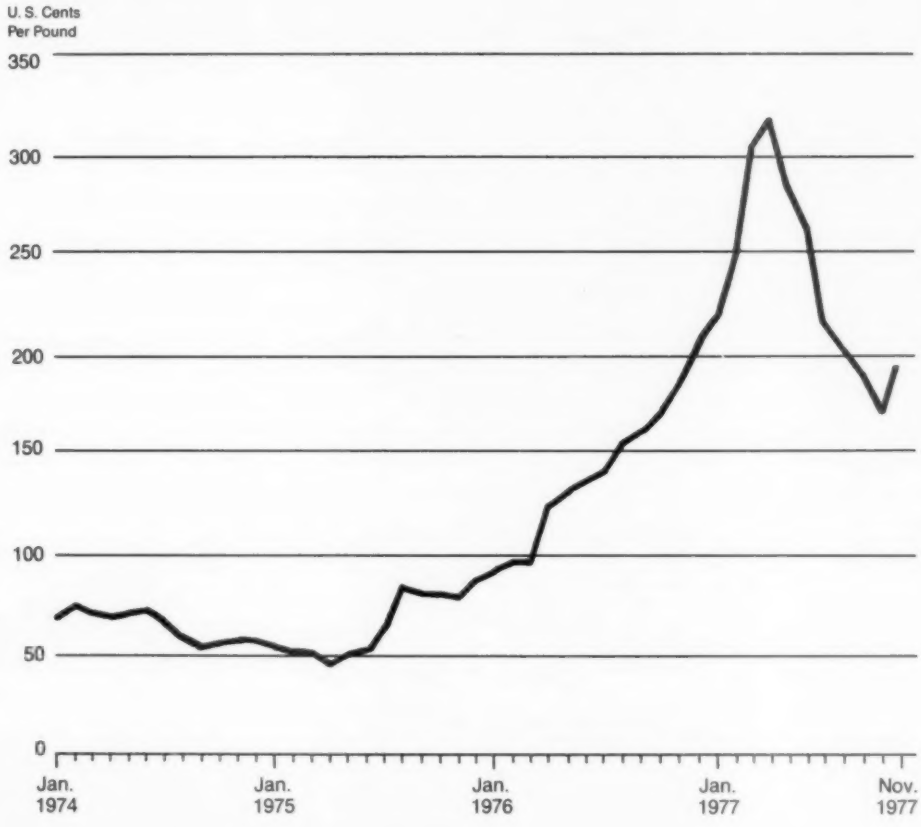
Coffee Indicator Prices For Other Mild Arabicas,[1] 1974-1977 By Month



[1] Including El Salvador Central Standard, Guatemala Prime Washed, and Mexico Prime Washed.

PRC-U.S. Trade Picking Up

Recent months have seen a slight resumption of U.S. agricultural sales to the People's Republic of China (PRC). Such sales totaled only $44,000 in 1976, sharply below the record of $664 million in 1974. Confirmed sales as of late November have been modest, totaling about $100 million, and include soybeans, soybean oil, and cotton.

Soybeans. In March 1977, U.S. soybean suppliers reported to the U.S. Department of Agriculture optional-origin sales contracts for delivery of 390,000 metric tons of soybeans to the PRC. Two hundred thousand tons of these were for 1976/77 delivery, the balance for 1977/78.

By August 2, 1977, the PRC had imported 225,000 tons of soybeans, all from Brazil.

In recent weeks, however, 75,000 tons of soybeans have been designated supplied by the United States under this contract. Of this amount, 24,000 tons have already been shipped.

At least part of the amount purchased in the United States will be going to third countries to fulfill PRC export contracts.

Soybean oil. As of November 20, 51,400 tons of U.S. soyoil had been contracted for November/December export to the PRC. There are also rumors of further sales of soyoil for 1977/78 delivery. New sales at this time of year do not necessarily contradict the PRC's report of an improved, although not necessarily record, 1977 total oilseed harvest.

Because of the tight oil supply in the PRC, new oil imports from a number of sources also seem to have begun to move in the last quarter of calendar 1977 suggesting that the PRC now finds it necessary to rely on imports to supplement the previous year's oil supply until the new crop can be harvested, processed, and distributed.

Cotton. PRC purchases of U.S. cotton for 1977/78 delivery began in April and as of November 20 rose to a total of 242,600 running bales. None had been shipped by that date. A cancellation of 21,000 bales was reported for the week ending November 6, but this was followed by a sale of 40,000 bales the following week.

Grains. There have been recurrent rumors in recent weeks of PRC purchases of U.S. wheat. But, there has been no confirmation of these reports.

No significant additional PRC grain purchases seem likely at this time. This year's grain crop appears slightly above last year's and overwintering crops are off to a good start.

Over 4 million tons of wheat already have been purchased from non-U.S. sources for delivery during the first 6 months of 1978. If the PRC is, in fact, interested in U.S. wheat, it seems likely that purchases would be for relatively small amounts for delivery during the remainder of 1977/78, or perhaps somewhat larger amounts for delivery after June 1978. Existing contracts with Canada and Australia provide for less than a million tons for delivery after June. This is well below China's normal import requirement.

In light of the high level of PRC imports of agricultural products this year, and some suggestions of PRC problems with deliveries from other supplying countries, these increased purchases so far made in the United States cannot be taken as an indicator of a change in PRC policy covering the purchase of U.S. agricultural products. The United States may still be functioning as a residual supplier. □

This page by Carolyn L. Whitton and Frederic M. Surls, Foreign Demand and Competition Division, Economic Research Service.

PRC Oilseed Situation Tight

The oilseed situation in the People's Republic of China (PRC) continues to be tight despite recent claims of an increase in the 1977 oilseed harvest. After poor oilseed crops in 1976, the PRC has, in 1977, for the second time in its history, become a net importer for soybeans and oilseeds.

It is also a net importer of edible oils [1] for the second time (1973 and 1977), indicating that the 1976 oilseed harvest was as poor as that of 1972 and fell short of demand. In 1977, net imports of oilseeds are estimated to be roughly 150,000 tons and of edible oils about 100,000 tons. By comparison, net edible oil exports in 1976 reached 20,000 tons and net oilseed exports were 180,000 tons.

In 1977, total oilseed imports have been all soybeans. No report has been found in other countries' trade data of any other oilseed imports by the PRC. By August, total imports were 225,000 tons; however, an additional 75,000 tons of soybean imports have been designated of U.S. origin under an outstanding option-origin contract.

Total PRC oilseed exports as of September had reached only 67,600 tons, mainly soybeans, a further decrease from the already low 210,000 tons of oilseeds exported in calendar 1976. In contrast to its 1977 net oilseed importing position, in 1976, and all previous years except 1974, the PRC has been a net oilseed exporter.

Through August, PRC vegetable oil imports of 83,000 tons had been reported for the year. Of this amount, 80,800 tons were soybean oil and an additional 2,200 tons rapeseed oil.

Only 500 tons of edible oils reportedly have been exported by the PRC in 1977, reflecting the tightness of its oil supply. In 1976, the PRC was a net exporter, with 29,500 tons exported against 10,000 tons imported.

The recent soyoil imports seem to reflect a continuation of the tight oil supply into the 1977/78 marketing year. □

[1] **In this analysis, edible oils include: Groundnut, rapeseed, cottonseed, and soybean oils. This review does not include coconut and palm oils, and it is uncertain whether they should be included. If they are, the PRC would be a net edible oil importer in 1973 and 1975-77. If linseed oil and tallow are also included, the PRC becomes a net importer every year since at least 1971.**

Larger Meal and Oil Outturns in Prospect For U.S. Competitors

By Alan E. Holz

World supplies of meal and oil will be more abundant during 1978, in large part because of a 33 percent gain in the 1977 U.S. soybean crop. But foreign producers such as Brazil, Argentina, and Malaysia also will enjoy production gains and stepped-up exports in competition with U.S. meals and oils. This second article on the world meal and oil situation looks at production and trade prospects in selected major competing and importing countries. The first article, in the December 12 issue, previewed the worldwide outlook.

Brazil, Argentina, and Malaysia—the rising stars of meal and oil trade—will be boosting production and exports of these products again in 1978. Their gains, plus prospective production increases in other major exporting and importing nations, will heighten competition in world meal and oil markets and limit the chances for growth in U.S. exports.

There are, on the other hand, several factors that augur well for U.S. exports.

Of key importance are the declines in aggregate foreign production of meal and oil registered in 1977. Previous declines were in 1973 and 1969, and each led to a sharp gain in U.S. exports the following year.

Also, the dramatic production growth evident in recent years in Brazilian soybean output and Malaysian palm oil production tapered off last year as a result of below-trend yields in Brazil's Paraná State and drought in Malaysia. While these problems should be at least partially corrected in 1978, production and trade expansion in the two may not match the rapid rates of the recent past.

Moreover, Peru—normally the world's largest exporter of fishmeal—could well be out of the meal market until late next year as a result of the depletion of fisheries off its coast and the consequent Government ban on fishing.

In addition, sales opportunities should continue to be good in India, the USSR, and possibly the People's Republic of China (PRC). India and the USSR both expect larger meal and oil outturns in 1978 than their reduced levels of 1977, but strong demand should keep India's oil imports and Soviet oilseed purchases relatively high. In the PRC, indications of lagging oilseed production may cause that huge country to continue importing large quantities of soybeans, at least in the current season.

Brazil. This country now accounts for about 50 percent of the foreign competition facing U.S. exports of oilseeds and meals in world markets, as a result of consecutive annual increases in soybean production since 1969.

In 1977, however, that country's production gain fell well short of early-season expectations of a 13-million-ton crop, in the end rising by only 11 percent to an estimated 12 million tons. Partly as a result of that outcome, USDA has made a rather conservative forecast of 12.8 million tons for the 1978 crop, to be harvested in April-May.

However, the Brazilian Government has set a soybean production target of 13.8 million tons for 1978, and recent strengthening of soybean prices could stimulate plantings beyond the 7-percent increase currently projected.

If the 12.8-million-ton production is achieved, Brazil's 1978 exports could be in the magnitude of 3.4 million tons of beans; 5.5 million of meal; and 550,000 of oil.

Brazilian soybean plantings are expected to continue to expand by 5-10 percent a year through 1980. However, gains will not come as easily as in the past and will require a heavy investment in improved transportation facilities.

Indications are that the country will become more interested in bilateral agreements with large importers such as Japan, Iran, and European nations in an effort to guarantee markets for its increased exports.

Brazil also can be expected to continue encouraging domestic use of soybean oil and meal—as witnessed by Government plans to promote use of up to 5 percent soybean flour in bread. That program could eventually expend domestic meal usage by 200,000 tons a year.

Argentina. This country is fast becoming an important competitive factor in world soybean markets. Early in 1977, Argentina harvested a soybean crop of 1.4 million tons—more than double the 1976 volume. Al-

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though Argentine interest in soybean production has lessened since the midyear price slide, 1978 plantings are expected to register another large increase that could put 1978 soybean output at around 1.7 million tons.

Substantial gains also are expected for sunflowerseed, flaxseed, and peanuts, as farmers switch from wheat and other grains to oilseeds.

That shift has been stimulated by relatively favorable oilseed/grain price relationships, as well as an important policy change by the Argentine Government, which announced last September that the export retention taxes on oilseeds from 1977/78 crops would either be eliminated or sharply reduced and that direct exports of oilseeds would be permitted. As a result, a large share of the growth in 1978 exportable supply will move in the form of soybeans.

If the 1978 soybean crop reaches 1.7 million tons, Argentina's exports in 1978/79 could be as much as 1 million tons, against 650,000 in 1977/78. Meal and oil exports, on the other hand, are expected to remain near their respective 1977/78 volumes of 300,000 and 60,000 tons, respectively, reflecting crushing capacity limitations resulting from expanded sunflower crushings.

Peru. The Peruvian Ministry of Fisheries announced in early October that if other studies support its findings, Peru will not begin anchovy fishing until the second half of 1978. If correct, this will virtually eliminate Peru as a competitor for U.S. soybean and meal exports in 1977/78. Furthermore, it would mean that Peru will need to continue to import substantial quantities of vegetable oil in the year ahead.

Fishmeal production in Peru during January-September 1977 is reported at 336,000 tons, compared with 638,000 in the same 9 months of 1976. According to unconfirmed reports, Peruvian fishmeal exports through September 30, 1977, totaled 308,000 tons—180,000 tons below target and more than a third below the 478,000 tons shipped in the same period a year ago. Peruvian stocks of fishmeal at the end of September reportedly totaled only 63,000 tons, compared with 102,000 a year earlier.

West Malaysia. With more plentiful rainfall in 1977 alleviating the drought of a year earlier, Malaysia's palm oil production is picking up sharply from the below-trend growth in 1976. Production increases of 26 and 37 percent, respectively, are reported for the first 2 quarters of 1977 from the year-earlier periods, compared with increases of 6 and 4 percent in the same quarters of 1976. Total Malaysian palm oil production in 1977 is estimated by the Malaysian Palm Growers' Association at 1,564,000 tons, compared with 1,253,000 in 1976 and a further sizable increase to over 1.8 million tons is forecast for 1978.

However, USDA is forecasting the 1978 outturn at a more modest 1.73 million tons, reflecting prospects of a delay in normalizing production following the drought and a reduced rate of growth in bearing-tree numbers.

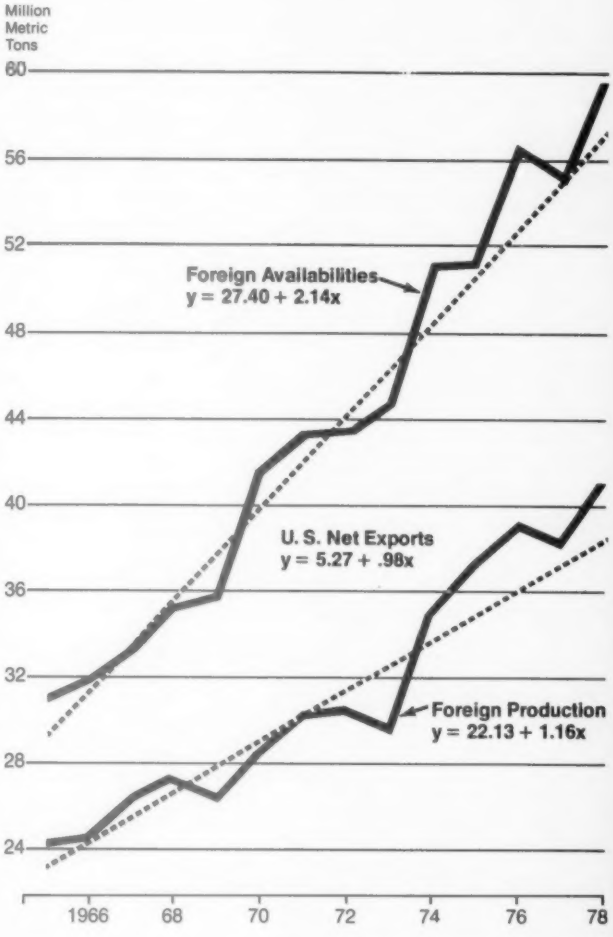
Malaysia can be expected to register continued sharp gains in palm oil output over the next decade, with virtually all of the increase moving into export .

A rising share of Malaysia's palm oil is also being exported as semirefined oil. For example, during January-July 1977, semirefined palm oil exports were about 380,000 tons, or 52 percent of total exports, compared with 38 percent in the same 7 months of 1976.

Philippines. Improved rainfall patterns in June-August 1977 have buoyed prospects for Philippine copra output in 1978, which is expected to gain somewhat to about 2.4 million tons following a sharp decline in 1977. Production in terms of oil is forecast at 1.5 million tons, or some 40,000 above this year's reduced volume.

The PRC. This country has long been considered a major producer-exporter of oilseeds and products. However, some production shifts apparently have been taking place in recent years—and unfavorable weather appears

CAKES AND MEALS[1]: Foreign production, U. S. net exports and apparent foreign consumption with calculated trend comparisons, annual 1965-77 with 1978 projections.



[1] Includes meal equivalent of oilseeds expressed on a 44 percent soybean meal equivalent basis.

NOTE: Based on linear trend projections, forecasting errors for foreign availabilities are expected to be within plus or minus 2.4 percent in 2 years out of 3; for net U. S. exports, within plus or minus 5.9 percent; and for foreign production, within plus or minus 3.6 percent.

to have hindered output. As a result, the PRC now appears to be a net importer of oils, fats, and soybeans.

In 1972/73, for instance, the United States shipped more than 60,000 tons of soybean oil to the PRC, followed by nearly 800,000 tons of soybeans in 1973/74. Subsequently, Brazil became the major source of beans and oil, with Brazilian export statistics for 1977 showing sales of nearly 50,000 tons of oil and 200,000 tons of beans to the PRC through July.

Recently, there have been reports of additional quantities purchased from the United States as well. The PRC also regularly imports large amounts of palm oil, coconut oil, and tallow.

"Malaysia can be expected to register continued sharp gains in palm oil output over the next decade, with virtually all of the increase moving into export."

Currently, China has been cutting back on exports of food-grade beans. That trend, first confirmed in 1976, has resulted in increased U.S. sales of food-quality beans to Japan—traditionally a big market for Chinese beans.

India. This country's 1977 oilseed production now appears somewhat below yearly season expectations, reflecting early diminishment of monsoon rains in 1977.

In addition, significant downward revisions have been made in official estimates of the 1976 and 1975 crops. Thus, the country's 1977 peanut crop is now estimated at 6 million tons, in-shell basis, compared with only 5.3 million in 1976. In contrast, the 1976 peanut crop a year ago was estimated at a record 7 million tons.

If India produces a 6-million-ton peanut crop this year, and other estimates are about on target, domestic production of all oils would rise by 340,000 tons in 1977/78.

Given a projected population increase of 2.2 percent, an additional 80,000 tons would be needed to maintain per capita consumption at the 1976/77 level. Thus, India's projected 1978 import requirements for all vegetable oils would decline about 260,000 tons from the 1976/77 level of 800,000 tons, with no allowance for change in stocks or per capita consumption.

European Community. Some changes in EC regulations may indirectly benefit consumption of soybean oil while another potential change could dampen usage of soybean meal.

On July 1, 1977, the maximum tolerance on erucic-acid content in rapeseed was lowered to 10 percent. French rapeseed producers—the leading oilseed producers in the EC—in 1976 switched to varieties with 5-6 percent erucic acid, compared with 46 percent in 1973. But despite these drastic changes, French rapeseed oil consumption has continued to lag.

Within the EC in the past few years, there has been a sharp increase in the use of grain byproducts and grain substitutes. This greater usage of low-protein ingredients at the expense of grain has stimulated consumption of high-protein meals. But recently, there have been moves to restrict feed usage of such grain byproducts. Any EC policy change in that direction would likely result in increased grain consumption and reduce high-protein meal usage.

Soviet Union. The 1977 Soviet sunflowerseed crop is now believed to be no more than 6.5 million tons—25 percent above last year's small volume. This would generate about 2 million tons of meal—soybean meal equivalent (SME)—or 400,000 more than the reduced 1976 outturn. In terms of oil, a production increase of 470,000 tons should boost availabilities to 2.5 million tons.

Despite this indication of a substantial increase in Soviet meal production, domestic supplies will not be sufficient to maintain last year's meal feeding rates without continued imports of oilseeds and/or meals. Soviet livestock numbers are now significantly above those of a year ago, while mixed feed production is running 7 percent ahead of last year's. And if feed demand expands by the current rate, total meal requirements would gain by roughly 400,000 tons.

As a result, 1978 import requirements are forecast at 1.2 million tons, SME, or not much below the 1.4 million tons bought in 1977.

Despite such imports, Soviet meal consumption continues rather low in relation to grain, compared with ratios in most other major markets. If the Soviets should attempt to narrow that difference, still larger imports would be necessary.

On the oil side, the increase in 1977 crops, plus indicated soybean imports at 1.5 million tons, would give the USSR an additional 750,000 tons of oil. This would likely more than fill USSR pipelines and result in a sharp increase in vegetable oil exports.

However, Soviet crushing facilities may not be adequate to handle the increase in domestic crushings, plus estimated import requirements. If that is the case, the Soviets have several alternatives—take part of their imports as peanut meal from India; take part of their imports in the form of soybean meal; or take nothing at all. In view of this year's reduced grain crop and increasing animal numbers, the logical alternative would appear to be a combination of the first two. □

Larger Cocoa Supplies, Lower Prices Expected

By Rex E. T. Dull

As the 1977/78 world cocoa bean crop begins to move to market, prices are starting to recede from the unprecedented, high levels of the October-September 1976/77 season.

Preliminary estimates place 1977/78 world cocoa bean production at 1.48 million metric tons, 9 percent above last year's poor harvest of 1.36 million. However, the extreme lateness of the principal West African crops has helped to maintain world cocoa prices at higher than expected levels this fall.

World cocoa prices increased sharply during 1977, with New York spot "Accra" cocoa bean prices being quoted as high as $2.60 per pound in mid-September, about double year-earlier levels and well above the average 1976 level of $1.10 per pound. But prices in the coming months should move downward as the market adjusts to a more favorable supply-demand situation.

Also contributing to the present easing of the tight global supply situation have been reductions in cocoa usage by most importing countries. World cocoa bean grindings in calendar 1977 are expected to approximate 1.37 million tons, well under the 1976 level of 1.52 million, and the outlook for 1978 is for a further reduction in world consumption.

Thus, a stock buildup is anticipated in 1978, following 2 consecutive years of inventory reductions, and with world stocks at extremely low levels, this should be a welcome situation for consumers.

In addition to bringing about lower grinding levels, tight supplies and high prices have fostered increased use of cocoa substitutes and extenders. The more even pricing and supply availability of these items will likely encourage continued expanded usage of these supplements in coming years, despite the outlook for lower cocoa prices.

Although a world stock buildup is anticipated in 1978, retail prices of cocoa and chocolate products are expected to continue to rise, reflecting the high cost of cocoa bean supplies in 1977 and inflationary pressures on labor, packaging, and plant operating costs. Thus, we can look for some manufacturers to reduce candy-bar weights in some product lines and others may post price increases.

The cost of U.S. cocoa imports has soared in 1977. Although lower in volume, U.S. imports of cocoa beans and products during the first 10-months of 1977 have reached $828 million, compared with $492 million during the corresponding 1976 period. In fact, January-October 1977 import value exceeded that of all of 1976, which totaled $595 million. It is likely that full-year cocoa imports by the United States in 1977 will approach a record $1 billion in value.

Cocoa consuming nations are paying sharply higher prices for their cocoa imports, and producers' earnings are at a record high level. Preliminary data place 1976 producer export earnings from cocoa beans and products at $2.1 billion, compared with $1.94 billion in 1975. With cocoa prices at a record in 1977, earnings should increase significantly for exporting nations.

However, West African cocoa farmers have not benefited fully from recent high prices, as marketing boards and stabilization funds in their respective countries have been paying much lower prices than world market levels.

For the 1977/78 season, farmers in Ghana (world's biggest producer-exporter) are receiving the equivalent of about 53 U.S. cents per pound; in Nigeria, 75 cents; in Ivory Coast (third biggest producer-exporter) 46 cents; and in the Cameroons, about 41 cents. But Latin Ameri-

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World Cocoa Bean Production

Country	Production 1976/77	Production 1977/78 [1]	Change
	1,000 MT	*1,000 MT*	*Percent*
Ghana	325	340	+4.6
Brazil	234	250	+6.8
Ivory Coast	230	250	+8.7
Nigeria	165	210	+27.3
Cameroon	82	95	+15.9
Others	323	338	+4.6
Total	1,359	1,483	+9.1

[1] Forecast.

New York Cocoa Bean Futures Prices [1]

[In cents per pound]

Annual average:		By month:	1976	1977
1965	16.1	January	63.0	154.4
1966	23.0	February	65.7	172.8
1967	26.3	March	65.6	183.4
1968	31.5	April	75.9	162.2
1969	39.6	May	82.7	170.7
1970	29.7	June	89.8	195.1
1971	23.8	July	90.3	200.9
1972	28.7	August	97.3	179.7
1973	50.4	September	110.7	177.8
1974	74.3	October	117.7	159.5
1975	56.2	November	135.3	160.2
1976	94.3	December	137.0	(2)

[1] Average of the daily closing price of the nearest three active futures trading months on the New York Cocoa Exchange. [2] Not available.

Sales Gains Possible For U.S. Renderers In Five Asian Markets

United States exporters of rendered animal products [1] must surmount stiff price competition and—in some cases—high import duties if they are to maintain or expand sales to five Far Eastern markets. Yet most of the five—Japan, South Korea, Taiwan, the Philippines, and Hong Kong—offer selected opportunities for sales growth.

Tallow's multifaceted uses have long been appreciated by Far Eastern buyers. In calendar 1976, 212,000 tons of U.S. tallow and grease valued at over $78 million were sold to these five markets, compared with 167,000 tons at $59 million in 1975. And Japan and South Korea, respectively, ranked as the second and third largest foreign outlets (behind Egypt) for U.S. tallow and grease in these 2 years.

The potential for sales expansion or further recovery from the low levels of 1975-76 appears reasonably good in Korea, Japan, Taiwan, and the Philippines—given continued economic growth and resulting sales gains of the mixed feeds, margarines, industrial chemicals, and soaps in which tallow mainly is used. Also important in this market prospect, are tariff reductions either made recently or being contemplated in several markets, including South Korea, Taiwan, and the Philippines.

Other U.S. rendering products—meat and bone meal, feather meal, and blood meal—used by the mixed feed industries so far have not made large gains in the Far East, although some indication of sales growth has begun appearing in recent months. Tradespeople have shown growing interest in meat and bone meal as a replacement for fishmeal. This interest has been due in part to declining supplies of fishmeal because of Peru's sharp dropoff in fishmeal production. In addition, the proliferation of 200-mile fishing limitations is expected to reduce Asian fish catches.

In several markets—especially Japan—fishmeal has been an important ingredient in livestock and poultry feed. Also, there is likely to be increased substitution of poultry and other meats for fish, which long has figured importantly in eastern diets.

Still, there is stiff competition for U.S. products from Australia and New Zealand, reflecting in some cases lower freight rates and in other greater familiarity with and preference for the Oceania products.

Although quality concerns have been increasing, price is still the most important factor, and in countries where U.S. prices are competitive the U.S. market share is usually substantial. A principal problem is how to offset Australia's advantage in transportation costs. In some markets these are around $30 per ton lower than from the United States. Also, Australian exporters have been selling on a c.i.f. basis with guarantees for some quality factors.

Japan. The world's second or third largest market for U.S. tallow (depending on the year), Japan in 1976 took some 95,000 tons of the U.S. tallow and grease worth over $40 million, compared with 74,000 tons at $27 million in 1975.

An important impetus to Japanese tallow consumption in past years was the "Wash Hands with Soap" campaign carried out by the National Renderers Association (NRA) in cooperation with the Japan Soap and Detergent Association and the All Japan Soap Association. NRA phased out of this program 3 years ago, and the local groups have been carrying out similar campaigns since, including stickers and posters for schools and other groups, plus seasonal efforts at times when Japanese give soap as gifts.

According to the associations, Japanese per capita consumption of toilet soap now stands at about 0.9 kilograms per year, an increase that is not as large as had been expected. However, continuing gains in per capita income, living standards, and numbers of households indicate somewhat more room for growth.

There has been limited interest so far in tallow-based LSDA-soap detergent. This nonpolluting biodegradable detergent can be substituted for phosphated petroleum-based detergents.

The one soap company now marketing the tallow-based detergent in Japan has been slow in developing sales, in part because of unattractive packaging—a handicap that has been corrected recently. Yet, considering the environmental problems faced in Japan—and growing awareness of these problems—the product may still find a good market there.

Among the other renderer products sold in Japan, meat and bone meal and feather meal are receiving considerable attention, owing to the new 200-mile fishing limits, curtailment of Japanese fish supplies. Interviews with tradespeople indicated that through the first half of 1977, Japan imported 140,000 tons of meat and bone meal, but 90 percent of it came from Australia and New Zealand because of their lower offering prices.

In 1976, the United States shipped only 1,000 tons of meat and bone meal, valued at $94,000, to Japan. But substantial increases in these U.S. exports to Japan now appear possible.

[1] **Tallow, grease, meat and bone meal, feather meal, blood meal.**

Based on a report by A. J. MacGregor, president, National Renderers Assoc., and Dean A. Specht, executive director, National Renderers.

In Japan, feather meal has come up against a number of complaints, questions and/or lack of knowledge about its use in animal feed.

Some Japanese feed mixers complained that the protein in feather meal—which has a protein content of 80 percent, compared with about 50 percent or less for most other protein meals—is considerably less digestible than other meals. But, some recent technical developments reportedly could remove this problem where it exists.

Despite such difficulties, U.S. exports of feather meal to Japan in 1976 totaled 11,000 tons, valued at $2.6 million—more than twice volume and three times value of 1975 shipments.

South Korea. This country rivals Japan as an importer of U.S. tallow and grease. In 1976, the United States shipped Korea 92,000 tons of tallow valued at nearly $36 million, compared with 74,000 tons at $25 million in 1975.

Moreover, the Korean market probably has very good growth potential as a result of an expanding domestic economy, particularly in areas that use tallow and grease; an improving foreign exchange position; and the recent liberalization of tallow and grease imports.

Also, trade sources report that—in contrast to the situation in other markets—freight rates to Korea recently have favored the United States ($40 per ton of tallow), versus its leading competitor, Australia ($51 per ton). Of course, the freight situation is subject to some variation by individual shipment and to fluctuation in general.

Tallow import quotas of 20,000 tons for use in margarine and 25,000 for instant noodles were removed February 1, 1977. As a result, one large trader expects Korea's tallow imports for margarine use to reach 35,000-40,000 tons in 1977. At the end of May, 15,000 tons had already been imported. In addition, this trader believes that usage of tallow in instant noodles could surge to 55,000-60,000 tons, for a combined import of 90,000-100,000 tons for refining purposes, compared with the 45,000-ton limit for 1976.

The main problem with sales of tallow for refining has been rising prices at a time when margarine is subject to a ceiling price. The cost of U.S. tallow reportedly went from $390 per ton to $490 during the first half of calendar 1977.

To help lessen the impact of this price rise on margarine manufacturers, the duty on tallow imports has been lowered from 15 percent to 10 percent.

Tallow imports for soap uses had been limited by recently removed quotas to 41,900 tons in 1977. As a result of the quota removal, these imports may now increase significantly.

The country also imported some 1,500 tons of animal fat for use in mixed feeds, total production of which is estimated at 1.2 million tons in 1976.

The negligible use of animal fat in feed apparently results from low domestic corn prices and the lack of tallow storage tanks at feed mills. Also, since there is a ceiling price on feeds, practically all feeds are formulated the same, with almost all ingredients geared to the fixed corn price of $130 per ton, c.i.f.

The Ministry of Agriculture reportedly is studying the possibility of reducing the duties on all protein meals by 10 percent. Current duties on selected feed ingredients include 30 per-

Tallow-Based Detergent Gets New Look in Japanese Promotion

Three Japanese producers of tallow-based soap detergent with a lime-soap dispersing agent (LSDA) recently came up with new product packaging they hope will spark increased use of this nonpolluting, petroleum-saving product.

The new packaging, pictured at right, depicts the mildness of this soap detergent, as well as its environmental advantages in a country where pollution has long been a problem. The advantages claimed include:

- Contains no phosphorus, which usually makes up 6-8 percent of conventional petroleum-based detergents. After entering water supplies, phosphorus nourishes the algae that scientists say are slowly choking lakes and rivers in highly populated industrial areas.
- The product's mildness—good for woolens and delicate fabrics, as well as for skins sensitive to clothes washed with harsh laundry products; and
- The resultant savings in expensive and finite petroleum and phosphates for more pressing needs, while making use of a renewable resource—tallow.

Introduced commercially in September 1975, LSDA tallow detergent is the product of research by USDA's Eastern Regional Research Center at Philadelphia in cooperation with the Fats and Protein Research Foundation and the National Renderers Association (NRA). It is based on the modification of tallow soap by addition of a lime-soap dispersing agent plus a builder to make the soap an effective biodegradable cleanser in hard water at low or high temperatures.

Although the soap-detergent so far has not found a big market in Japan, its sponsors feel its potential is good, both in Japan and in other markets with pollution problems.

cent for meat and bone meal, 100 percent for feather meal, 30 percent for soybean meal, and 20 percent for fishmeal.

The Korean feed industry is familiar with meat/bone meal, and one trade source believes a duty reduction would lead to substantially increased use.

Taiwan. During June 1976-April 1977, Taiwan imported about 9,800 tons of tallow and grease from the United States, or around 28 percent of all such imports. Another 28 percent was supplied by Australia, and most of the remainder by New Zealand, which managed to undersell both the United States and Australia.

Taiwan has a hog population of about 35 million, and use of animal fats in swine rations is well established as a result of a successful NRA program. Some 10 years ago, that program began promoting the use of 3-4 percent added fat in swine feeds.

The feed industry uses around 60,000 tons of fat in feed, but in the past imported only 10,000-20,000 tons because of high import duties and availability of local lard and grease.

These import duties—ranging from 5 percent for Feed Grade Animal Fat (FGAF) to 22.8 percent for industrial tallows—were changed in August 1977 to an across-the-board rate of 10 percent. While advantageous for refining and industrial tallow trade, this move doubled the duty on FGAF.

In addition, an NRA soap promotion campaign with the Taiwan Soap and Detergent Association will continue to encourage domestic use of tallow-based soaps.

NRA also is planning a feeding trial with the Joint Commission of Rural Reconstruction, using feather meal and meat/bone meal in a broiler ration. The goal is to use these high-protein meals as substitutes for increasingly expensive fishmeal.

One source said that if the 20 percent duty on feather meal were removed, his firm would buy 500-1,000 tons per month of the product. In this case, the minimum quality requirements for feather meal would include: Digestible protein, 60 percent; pepsin digestibility, 70 percent; and crude protein, 84 percent.

Philippines. The United States shipped 5,570 tons of tallow (nearly all for toilet soap) worth $2.1 million to the Philippines last year. But sales there were limited both by stiff price competition from Australia and a 30-percent duty on animal fat imports. In addition, use of domestically produced coconut oil in mixed feeds is subsidized by the Government.

Both the subsidy and the high import duty have encouraged use of coconut oil over similar feed ingredients—the Government goal, since the country has a large coconut industry. However, increased efforts are being made to have the duty on imported animal fat, especially FGAF, lowered. Some sources feel that if this is achieved, imports of tallow could rise sharply.

Until recently, Australian tallow has dominated the Philippine market because of lower freight rates and trade satisfaction with the Australian product. The Australia-to-Manila freight rate reportedly was $48 per ton (nonconference), compared with $70-$72 (conference) from the United States. Moreover, importers could get delivery within 12 days from Australia, against 45 days from the United States.

Contributing to this difference was the use by Australian shippers of nonconference Soviet ships, the chartering of which is managed by Japanese firms. (Note: A recent report indicates this freight situation has now turned in favor of U.S. exports.)

Toilet soap formulations in the Philippines call for a minimum 60 percent tallow, which can go, and normally does, as high as 85 percent. One source estimates that if the tallow import duty were removed, imports of tallow for use in soap could rise by 40 percent or more in the first year or so after elimination of the duty.

Total soap production in the Philippines amounted to 16,000 tons in 1976, or 9 percent more than in 1975. Through mid-1977, no gain from 1976 production had been made, but a 3.5-4 percent increase is anticipated for the full year.

The biggest livestock industry users of mixed feed—and thus tallow and other rendering products—are the swine and poultry industries, respectively taking 25-30 and 70 percent of commercial mixed feed output. About seven major feed mixers account for the bulk of this commercial production, which has been estimated at 1 million tons annually.

Here, as in other markets, there is a growing interest in finding substitutes for high-priced fishmeal, although the feed compounders still are skeptical about feather meal because it is basically an unknown and is felt to have an imbalance of amino acids. On the other hand, meat and bone meal use is definitely moving up, and one feed compounder reportedly purchased 1,400 tons of U.S. meat and bone meal in June—compared with the total 1976 import of 2,000 tons from the United States.

From 1973 through 1976, Australia almost totally dominated meat and bone meal trade because of slightly better freight rates than from the United States. Recently, Australia has supplied about 80 percent of the imported meat and bone meal, and the United States, 20 percent.

Hong Kong. This market is not a major importer of U.S. renderer products. In 1976, for instance, it reportedly purchased 2,846 tons of meat and bone meal, only 15 percent of which came from the United States.

There is a possibility for somewhat increased imports of meat and bone meal, including quantities from the United States. These products can be used to replace high-priced fishmeal, and there is a prospective increase in animal protein usage by Hong Kong's growing poultry and hog industries. Current and prospective imports of tallow and grease into the market are negligible.

While in Hong Kong, the team explored prospects for sales of rendering products to the People's Republic of China (PRC). The PRC is now importing about $10-million worth of tallow annually, largely from Canada and Oceania. Reportedly, in mid-1977, the PRC took 5,000 tons of tallow from Australia and New Zealand (via a Soviet ship) and 8,000 from the United States, of which 3,000 tons were shipped in September. Canada also has recently sold tallow to the PRC.

The PRC agency in charge of importing rendering products is the China National Cereals, Oils, and Foodstuffs Import-Export Corporation, located in Peking. Contact efforts can now be made directly to that agency, through the PRC liaison office in Washington, D.C. □

Brazil Is Big U.S. Seed Buyer, But Trade Walls Dim Growth Potential

In its drive to boost farm output as fast as possible, the Brazilian Government has targeted use of improved seeds as a priority farm goal. As a result, Federal and State Governments have ambitious seed multiplication programs, seed companies in Brazil are enjoying strong sales, and Brazil has become the largest Latin American market for U.S. vegetable and forage seeds.

Yet getting into the market is complicated by Brazil's restrictions on imports of most seeds and its determination to squeeze foreign suppliers out of the market over time, according to a team from the American Seed Trade Association, Inc. (ASTA)[1] that surveyed the Brazilian seed market—and its goals—last year.

Instead, say team members, the Government is offering numerous incentives for foreign investment in Brazilian-owned companies, so as to attract needed technology and expertise without sacrificing scarce foreign exchange.

Despite these drawbacks, the immensity of the Brazilian market alone has so far guaranteed large U.S. seed exports there. During 1976/77 (July-June), for instance, the United States shipped $4.8 million worth of seeds to Brazil, almost 50 percent more than in 1975/76. This was enough to make it the No. 1 U.S. seed market in Latin America and one of the top 10 U.S. markets worldwide.

During 1976/77 the United States shipped $2.5 million worth of vegetable seed and $600,000 worth of forage seed to Brazil. That year, the United States also exported $1.7 million worth of "other" seed to Brazil.

However, imports from the United States are closely regulated by Brazil.

According to the report . . . "there is a stated policy at the Federal level to tightly control the importation of seed, and to make it increasingly difficult in the future to import seeds into Brazil that can be produced in Brazil, even at an economic disadvantage."

Foreign investment in Brazilian seed industries is a different story. A Government package of incentives for investors, for instance, includes low-interest Government loans for up to 80 percent of needed capital and for as long as 12 years with no monetary correction made during that time for inflation. "One seedsman who is currently building new plant facilities indicated that this combination means that at the end of the loan period, the Government has actually paid for half of the plant site," the team report states. It adds that as much as 12 percent of the capital account may be returned to the United States each year if profits are plowed back into the company.

The Government, in turn, uses attractive credit terms to encourage farmers to buy fiscalized seed—seed that is inspected and controlled by the Government—from an authorized seed producer. Such credit (with no monetary correction for inflation) amounts to 7-15 percent annually, compared with commercial rates of around 35 percent. "The team has never seen the extension of credit used as such a powerful mechanism for moving agriculture in a direction desired by Government planners," according to the report.

Farmers purchasing modern production inputs—such as seed, improved insecticide, and fertilizer—also are allowed to multiply their input costs times six and then deduct that inflated figure from their income tax. Such deductions are permitted by law to go as high as 80 percent of a farmer's income.

The Brazilian Government, itself, is deeply involved in seed research and multiplication. The Brazilian Agricultural Research Enterprise (EMBRATA)—a 4-year-old agency involved in reforming agricultural research in Brazil—has several product-oriented National Research Centers. These cover all the major grains, livestock, soybeans, fruits and vegetables, and tropical products. The philosophy is that "the introduction of new varieties at the farm level is made easy through the use of incentives and credits to farmers, and that planting seeds is a relatively low-cost modern farming input."

The team visited EMBRATA's National Research Center for wheat at Passo Fundo, where work is being done on barley, triticale, and soybeans, as well as wheat. The well-equipped facility has been expanded and modernized considerably since the days when it was a State experiment station. It is working on finding

[1] **ASTA is one of the more than 40 agricultural groups that cooperate with the Foreign Agricultural Service in overseas market development. Members of the September, 1976 mission to Brazil included: S. Pressly Coker, Jr., president, Coker's Pedigreed Seed Co.; Archie Dessert, president, Dessert Seed Co., Inc.; and Wayne Underwood, international marketing director, American Seed Trade Assoc.**

wheat varieties resistant to such common diseases as aluminum toxicity, leaf rust, and stem rust, as well as high-yielding varieties that will help Brazil reach its goal of self-sufficiency in wheat.

On the State level, Agricultural Councils bring together State groups involved in agricultural endeavors, including research, helping to stimulate cooperation between the public and private sectors.

Among these groups are State Seed Associations, which are affiliates of the Brazilian Seed Trade Association. These associations are similar to ASTA in that they represent the seed industry to the State and Federal Governments.

"The team has never seen the extension of credit used as such a powerful mechanism for moving agriculture in a direction desired by Government planners."

In addition, one State—São Paulo—has an aggressive seed certification program of its own. The State-run São Paulo State Seed Company is the largest seed operation in Brazil. Its certified seed is accepted by the National Government as an equivalent of fiscalized seed and is thus eligible for low-interest loans. This year, the State of São Paulo is expected to pay $30 million to contract seed growers in the State for seed from 19 different crops.

Team visits to individual farms revealed an expanding and rapidly modernizing agriculture, supported by related agribusinesses. The best land in Brazil already is being farmed, but the team was told that land can still be put into production at the rate of 4 percent a year for the next 50 years. This rapid expansion was much in evidence even in already developed areas such as southwestern Paraná and Rio Grande do Sul.

Farms visited—mainly soybeans, wheat, and corn enterprises—were large, modern, well managed, and on newly developed land. Owners had used bulldozers to push trees and undergrowth into windrows and had started farming almost immediately on cleared areas. Over a period of years, they will burn and clean up the windrows.

Because of high Government support prices farmers can grow crops like wheat that are uneconomical in terms of world prices. In addition, the Government has a tremendous influence on production through its use of rural credit, crop subsidies, and taxes.

The Government does not force the free enterprise farming community to follow rigid rules but does provide powerful incentives for it to expand and modernize in the directions desired.

Team findings for some of the more important crops included:

• **Foodgrains.** Seed multiplication programs are almost entirely controlled by the public sector, with research conducted in universities and experiment stations. Seed for multiplication then moves into the public and private sectors. During 1972-75, an average 2.37 million hectares yielded 1.75 million tons of wheat annually.

• **Cotton.** Brazilian State Governments have tight control over research, production, and marketing of cottonseed, with São Paulo State enioying a virtual monopoly. During 1972-75, an average 2.1 million hectares per year were planted in cotton, yielding 593,000 tons per year of lint and 1.3 million tons of seed.

• **Soybeans.** Public and private sectors share in the marketing of soybean seed to farmers, with basic and foundation seed handled in the public sector. Except for unusual cases for research purposes, it is virtually impossible to export soybean seed to Brazil, since quarantine officials require a phytosanitary certificate stating the seed is free of all viruses. The U.S. Department of Agriculture, for instance, cannot issue certificates with such all-inclusive statements.

Brazil's production of soybeans has soared from 3.7 million tons grown on 2.8 million hectares in 1972 to 12 million tons estimated for 1977.

• **Corn.** Public and private sectors share responsibility for corn seed production, distribution, and research, but private firms—including several U.S. firms—are becoming increasingly involved in this area. Corn production during calendar 1977 totaled a record 18.8 million tons from 11.2 million hectares, with increasing amounts of the crop available recently for export.

• **Grain sorghum.** A new crop to Brazil, this is largely ignored by Government institutions. Thus, if grain sorghum does become a significant crop in Brazil, it will be through the efforts of private companies—mainly those now involved in hybrid corn business.

• **Pasture and forage.** This market is mainly in the hands of the private trade, but because much of the country has conditions similar to those in tropical Australia, many of Brazil's improved tropical grass and legume seeds have come from Australia. The United States, on the other hand, exports a variety of cool-season grass, alfalfa, and clover seed to Brazil.

• **Vegetable seed.** This is almost entirely controlled by the private sector, and the United States has been a major supplier. Domestically, two companies—a large cooperative and a division of Agroceres—are of primary importance in the market. □

Continued from page 4

Central American Coffee Producers . . .

This is not to say that none of the countries has a section of small, backward producers. But generally, each country does have a well-conceived program for dissemination of technology, credit, and cooperative movements among small producers. Such programs are particularly active in Mexico and Honduras.

Future coffee production gains ultimately hinge on domestic production costs and their relationship to international prices. While there is considerable room for yield improvement, the large, efficient producers who supply a high percentage of total exportable production are likely to find further increases more costly in terms of inputs.

Fertilizer costs remain a concern, although costs have stabilized considerably since the highs of 1974. Labor costs and the potential costs of fighting coffee rust now appear to be the primary concerns for the short and long term.

With coffee a labor-intensive crop—particularly during harvesting—wage rates for labor are a critical component of overall production costs. Wage rates, particularly in El Salvador, Costa Rica, and Guatemala, have been rising as steadily as have export prices. The recent dropoff in prices, however, signals serious problems for producers in many countries in the region, as it would be very difficult to roll back wage increases given during the postfreeze boom.

In Guatemala, for example, the labor supply traditionally has been adequate and cheap. But now—and in years to come—coffee must compete with other labor-intensive crops such as cotton and sugar, at substantially higher prices. One ramification would be possibly a slight decline in Guatemalan coffee output, as plantation owners seek to reduce labor costs by reducing harvest pickings from three to two.

While the current situation has been in the making for several years, it had previously been offset by production gains and higher export prices. Producers argue that further declines in coffee prices could force some growers out of the industry.

The threat of a massive outbreak of coffee rust—or roya—in the Mexican and Central American region presents both short- and long-term problems. Nicaragua, where coffee rust first was discovered in Central America in 1976, has done an excellent job in controlling the fungus' spread.

To date, however, the disease has not been eradicated completely in Nicaragua. At a recent meeting in Miami, an international symposium of plant pathologists recommended that an all-out eradication effort be made in the coming months.

Without eradication, plant pathologists fear that rust will probably spread throughout the rest of the region in the next 3-10 years.

Since there are no commercial rust-resistant varieties of coffee available in the region, eradication and other rust control methods offer the only short-term solutions.

A high degree of regional cooperation to stop the spread of coffee rust is evident in the area. All the countries have well-conceived control plans, as well as a free flow of information on control methods. The emphasis currently is on extension work to educate producers to identify rust and to use spraying equipment.

While the coffee industries in El Salvador and Costa Rica—in general—are more experienced and technically better prepared to implement disease-control measures than the other countries in the region, all foresee the fight against rust as technically difficult and very expensive.

As current events indicate, the contribution of coffee earnings to the economies of the Mexican-Central American region is extremely volatile. Sharp fluctuations in price can potentially impair both the political stability and economic development of producing countries heavily dependent on the crop. Producers, exporters, and most of the coffee industry have learned to live with this.

In poor years, small producers utilize credit programs to bail them out; large producers survive by cutting labor, fertilizer, and cultivation amounts. Exporters survive by diversifying into other commodities that carry them through when there is little or no profit in putting coffee on the world market.

In contrast to individual producers and exporters, governments heavily dependent on coffee's foreign exchange and tax revenues find that instability in the coffee market presents a serious obstacle to sound planning of economic and social development.

Recognizing this problem, many governments have given attention to crop diversification programs, which have met thus far with limited success.

Guatemala, for example, is particularly active in this area—experimenting with African oil palm, avocados, and macadamia nuts. In contrast, El Salvador—the country most heavily dependent on coffee in the region—has been less active in crop diversification.

The coffee situation in Mexico and Central America appears uncertain for this season as well as those of the next several years. While the international price of coffee may rise as consuming countries enter the high-demand winter season, price prospects for the long term do not appear bright.

For countries that remain heavily dependent on coffee as a foreign exchange and tax revenue generator and labor employer, the long-term outlook is less than optimistic. However, this picture may be offset by price stabilization measures undertaken by the ICO. □

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World Cocoa

can farmers, who sell directly to exporters, usually receive close to the world market price.

The International Cocoa Agreement (ICA) continues in operation, but it has not had a chance to prove its effectiveness because world cocoa prices have remained well above the price range stipulated in the Agreement. In order to bring the range closer to current market conditions, it was increased to 65-81 U.S. cents per pound, effective October 1, 1977, from the previous range of 39-55 cents. However, the new range has not influenced the world cocoa market, as prices have remained above these levels.

ICA revenues from a 1-cent-per-pound levy on cocoa exports by producer members—to finance a buffer stock scheme—are now in excess of $100 million, and no purchases have been made for the buffer stock since the implementation of the ICA in the fall or 1973.

The longer term outlook for cocoa is for increasing supplies and further easing of prices. Given the return of better weather conditions in West Africa and increased output from new plantings in the Ivory Coast, Brazil, and Malaysia, world cocoa bean production for 1978/79 could exceed the record 1971/72 harvest of 1.57 million tons. □

New Zealand Dairy Prices Upped in EC

The EC Council of Agricultural Ministers has agreed to increase the import price for New Zealand butter and cheese by 10 percent to the equivalent of US$1,230 and US$1,060 per ton, respectively. This is considerably short of the 26 percent rise in butter and 28 percent rise in cheese prices requested by New Zealand.

In announcing the 10 percent increase, the Council indicated that further increases might be forthcoming in return for a reduction of the New Zealand butter quota for 1978. As part of its agreement to enter the Community, the United Kingdom is authorized to import from New Zealand 138,176 tons of butter in 1977 and 125,000 in 1978.

Belgian Report on EC Grain

A recent report from Belgium's Ministry of Agriculture points to a number of changes that have occurred in the past 10 years in the grain picture in the European Community and in Belgium. Among these:

- Belgium's output of grains has increased during the past 10 years—despite smaller planted area—because of higher yields.
- Among the six original members of the European Community, corn output has increased the most, but a considerable gain has also taken place in production of wheat and barley, which has risen more rapidly than consumption.
- While utilization of grain for human consumption has not changed much, usage by the livestock and industrial (corn starch and malt) sectors has expanded rapidly.
- Usage of wheat for feed depends on its ability to compete with corn and barley. If surplus wheat is to be used in feeds without resorting to supplementary premiums, an adjustment in the price structure among grains is necessary.
- Since the enlargement of the EC, the overall grain deficit has grown—particularly for feedgrain. However, surplus production exists for soft wheat and to a lesser extent for hard wheat and barley. Corn continues in deficit.
- The flow of grains has shown a spectacular increase in intra-EC traffic, primarily because of sharply increased use in member countries that are deficit producers. This development is a result of the lack of economic barriers within the EC.
- Grain prices, especially during the past 3 years, have increased sharply as a result of rapidly rising production costs.

The fact that target prices are higher than intervention prices appears to favor intra-EC traffic. Prices for feedgrains have increased more than those for wheat, and market prices for feedgrains generally have been above intervention prices.

Correction: December 5 issue, page 13, title of bottom table should read: Egypt: Oilseed Area and Production, 1972-76, 1980.